



Principles for Encouraging Best Practice Performance

Australian Procurement & Construction
Ministerial Council 2000

Meeting of Australian Procurement and Construction Ministerial Council
Australian Procurement & Construction Council Inc
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INTRODUCTION

A major share of construction industry activity is generated by the continuing demand for public asset and infrastructure development. Commonwealth, State and Territory governments are committed to supporting industry development through leadership in their consolidated role as major clients of the construction industry.

Governments can act as a facilitator to influence the strategic direction and encourage improvements in the construction industry through their procurement processes.

The Australian Procurement and Construction Council Inc. (APCC) comprises representatives from the Australian Commonwealth, State and Territory governments and at a national level provides an interface between the construction industry and government.

The activities of the APCC provide the opportunity for governments to undertake extensive consultation and liaison with industry representatives throughout Australia. The APCC develops specific initiatives in partnership with industry aimed at increasing productivity, competitiveness and long-term sustainability for the construction industry and for the benefit of the Australian community.

The APCC developed a major policy paper, *Construct Australia: Building a Better Construction Industry in Australia* from the National Construction Industry Forum held in Sydney in May 1997. At the Australian Procurement and Construction Ministerial Council Meeting in Perth, 1997, Ministers endorsed *Construct Australia* as a basis for the development of strategies to encourage the development of a more competitive, productive, safe and vigorous construction industry.

To implement Strategy 9 of *Construct Australia*, the APCC undertook to coordinate the development of a framework through which individual jurisdictions could develop incentive regimes for rewarding their better performing service providers. The APCC *Principles for Encouraging Best Practice Performance* sets out this framework.

THE NEED FOR BETTER PERFORMANCE

The construction industry competes in a complex environment that is undergoing rapid and far-reaching change. Improved supplier performance is required in this environment to enable the Australian construction industry to increase productivity, competitiveness, long-term sustainability and also to enhance their international competitiveness.

In order to meet the challenges of the new environment, businesses must respond by adapting their practices and behaviour by:

- Integrating their supply chains;
- Increasing their knowledge base;
- Benchmarking; and
- Adopting new project delivery mechanisms.

Construct Australia: Building a Better Construction Industry in Australia describes a future industry possessing the following attributes:

Seamless

Client and service focused enterprises delivering seamless services through integrated alliances that provide packaged, high value, single source solutions for clients offering long-term contracts.

Efficient and profitable

Financially robust enterprises that employ a stable, well-educated, flexible workforce.

Innovative

Enterprises that are clever and use today's and tomorrow's technology and integrated processes.

Environmentally responsible

Enterprises that are committed to ecologically sustainable development.

The culture of the marketplace is a reflection of the collective behaviour of clients and their suppliers. Governments as major clients of the construction industry are able to influence the culture of the market through new purchasing policies and practices.

This framework seeks to assist Governments to develop informed strategic and coordinated national action throughout Australia to encourage and reward better performance for the benefit of both industry and the community.

THE MEANS FOR CHANGING PERFORMANCE

Access to government business is potentially the most influential tool that governments have to recognise and encourage excellence and best practice behaviour by service providers and suppliers. This has been acknowledged by APCC members and is evident in the widespread use of pre-qualification systems, multi-factor tender evaluation, tendering assessment benefits and informed selection based on contractor performance reports.

APCC members are committed to fostering an environment in which best practice principles and continuous improvement will thrive and will be applied in a consistent way throughout Australia. The principles of best practice have been set out in the *National Code of Practice for the Construction Industry* and in the *APCC Towards Best Practice - Guidelines*. The principles of the *National Code* are also reflected in individual jurisdictional Codes of Practice.

APCC members are committed to developing better, innovative procurement methods that will encourage excellent performance by service providers. They will also continue to improve and coordinate existing methods and to research, develop and apply new methods in cooperation with industry.

A national framework for encouraging better performance is based on the following four principles:

1. Information and education

Service providers to clearly understand what constitutes best practice and excellent performance.

2. Performance assessment

Performance of service providers will be rigorously assessed using criteria developed from a common set of principles.

3. Opportunities for work

Performance will drive tender selection with service providers competing on quality of performance. Clients may reward excellent performance on the part of service providers by improving their chances of winning work.

4. Risk allocation

Clients will reward excellent performance on the part of service providers by offering them improved terms of trade.

PRINCIPLE 1: INFORMATION AND EDUCATION

Service providers to clearly understand what constitutes best practice and excellent performance.

All service providers in the supply chain need to understand client requirements in order to be competitive and to perform well. Clients can assist service providers by clearly articulating their requirements to achieve excellent performance and how it will be assessed and what the rewards will be. It will assist service providers if they understand the various client procurement methods so that they may adapt their organisational arrangements accordingly and make the necessary changes to respond to client requirements.

It is advisable when working with governments throughout Australia that service providers understand the government requirements for best practice. These best practice principles are nationally consistent and are set out in the *APCC National Code of Practice for the Construction Industry* and the *APCC Towards Best Practice — Guidelines* as well as State and Territory Codes.

Actions:

1.1 Improve understanding of government client requirements

APCC members in each jurisdiction will collaborate with employer and industry associations to improve the industry's understanding of doing business with government as a client. Improved understanding of government requirements, as defined in the respective Codes of Practice, will enable service providers to develop better strategies and to execute their responsibilities more effectively when working on government projects.

Example 1.1.1

In 1993, the NSW Government released the Capital Project Procurement Manual (CPPM). The aim of the CPPM, developed by the Construction Policy Steering Committee is to share best practice and optimise consistency in the way government agencies deal with industry. The manual has been recognised for its clarity, economy and precision. It also provides the following benchmarks: what has to be done, by whom and when, and what can happen when there is a failure to observe the requirements.

Example 1.1.2

All jurisdictions have regular consultation with industry through industry associations and a range of industry advisory groups to Government. Other forums are held with industry groups on specific items, eg. new consultant panels, GST requirements.

1.2 Promote advantages of excellent performance

APCC members in each jurisdiction will promote strategies for recognising and rewarding better performance. These strategies will provide service providers with the information they require to access the benefits provided by government to excellent performers.

Example 1.2.1

In late 1999, NSW Department of Public Works and Services celebrated the success of its best practice contractors who were presented with certificates by the Minister for Public Works and Services. This success by local contractors was widely reported in the media.

The Department has also published a brochure on “Contractor and Consultant Best Practice Schemes” which outlines and promotes the Department’s initiatives for these schemes.

1.3 Promote best practice case studies

APCC will publish best practice case studies from each member jurisdiction. These case studies will showcase industry members who have demonstrated excellent practice. This promotion of best practice case studies will provide guidance and motivation for industry.

Example 1.3.1

The NSW Government Construction Policy Steering Committee promotes best practice case studies through its web site. Case studies have been provided for the following areas:

- New forms of contract
- Industrial Relations — Project Agreements
- Training and skills development
- Occupational Health, Safety and Rehabilitation (OHS&R)
- Environment
- Aboriginal employment

The chosen case studies demonstrate best practice time, cost, quality and service outcomes, improvements in training for employees, reductions in waste material and new project agreements.

Example 1.3.2

The Information Industries Branch (IIB), a unit of the Department of Communication and Information, Local Government and Planning in Queensland, has published case studies on the use of IT in the building and construction industry. These case studies demonstrate improvements in the work place through the use of IT. Outcomes include:

- Streamlined office administration
- Efficient management of client information
- Integrated business operations
- Improved communication between head office and remote site locations
- Development of virtual project office to manage and coordinate construction projects.

The IIB will be making these case studies available on their web site as well as in hard copy format.

PRINCIPLE 2: PERFORMANCE ASSESSMENT

Performance of service providers will be rigorously assessed using criteria developed from a common set of principles.

Performance reporting based on common criteria provides consistency in performance assessment and a basis for exchanging information about best practice performance by service providers.

Actions:

2.1 Develop a rigorous and informative reporting system about the performance of service providers

APCC members in each jurisdiction will ensure that accurate, informative reports on the performance of service providers are an integral part of all construction projects.

Example 2.1.1

The NSW Government requires performance reporting on contractors for all major construction projects. The frequency of reporting during the contract is determined at the initial post-contract award meeting. Performance reports are completed by the Reporting Officer who liaises with the contractor. Each performance report is discussed with the contractor, who is given the opportunity to comment. It is then the responsibility of the Reporting Officer to ensure that the report is as objective and accurate as possible to assist agencies to make decisions about selection, registration or regrading of contractors.

2.2 Develop consistent forms of performance report

APCC members in each jurisdiction will base their service provider performance reports on the principles embodied in the *National Code of Practice for the Construction Industry* and in the *APCC Towards Best Practice - Guidelines*.

2.3 Share information about best practice performance of service providers

APCC will consider a system for sharing among its members, information about best practice performance by service providers.

Example 2.3.1

In *Contractor Performance Reporting and Exchange of Reports between Government Agencies Guidelines*, the NSW Government sets out how information can be exchanged between its agencies that are involved in construction. The guidelines restrict the type of information which may be shared to that which is contained in contractor performance reports and any notes from associated discussions and reviews. NSW Government agencies may use contractor performance reports prepared by other agencies to evaluate contractors for registration, pre-qualification, selective tender lists or awarding of a contract.

PRINCIPLE 3: OPPORTUNITIES FOR WORK

Performance will be a primary driver in tender selection with service providers competing on quality of performance. Clients may reward excellent performance on the part of service providers by improving their chances of winning work.

Opportunities to win work will be enhanced in both open competition and through invitations to prequalified service providers. In both cases, past performance will be one of the criteria for the selection of service providers.

Actions:

3.1 Recognise past performance when assessing tenders

APCC members in each jurisdiction will incorporate past performance as a selection criterion in assessments of open tenders. The weightings given to performance will be of a sufficient level to convince contractors that performance has a defining impact on the tender assessment outcome.

3.2 Recognise past performance when prequalifying service providers

Where prequalification schemes are in place, APCC members will include an ongoing assessment of past performance as a factor in increasing or decreasing a service provider's opportunities to bid for work.

Example 3.2.1

The NSW Department of Public Works and Services Contractor Best Practice Scheme rewards successful contractors with preference on tender panels (over contractors in the ordinary prequalification scheme) and a 2% tender price preference. Contractors successfully meeting the scheme requirements are monitored by the Department to ensure that they are on a continual improvement path. From time to time, contractors are provided with data comparing their company with other contractors in the scheme. The Department will drive ongoing development by lifting requirements for the next scheme in line with industry development trends.

Example 3.2.2

As noted in Example 2.3.1, NSW Government agencies have guidelines for the exchange of performance report information. NSW has many agencies that are involved in construction work (Department of Public Works and Services, Roads and Traffic Authority, Rail Services Australia, Department of Housing, Sydney Water). Therefore, when a contractor submits an application for prequalification, an agency is able to use past performance reports from other agencies during the assessment process.

PRINCIPLE 4: RISK ALLOCATION

Clients will reward excellent performance by service providers by offering them improved terms of trade.

APCC members in each jurisdiction will encourage and reward excellent performance by service providers who can demonstrate better project outcomes. A range of measures has been adopted by some government agencies. Research is required in order to develop additional measures that support excellent practice and are mutually beneficial to both clients and service providers. Consideration could be given to adapting measures used in other industries or by private sector clients, together with developing new measures. The aim is to develop measures that reward excellent performance.

Actions:

4.1 Apply a range of commercial benefits

APCC members in each jurisdiction will consider the adoption of a range of commercial benefits to offer to service providers who have demonstrated excellent performance. Commercial benefits currently used or under consideration by some government agencies include:

- Retention of savings by the service provider where they have been the result of the use of innovation;
- Early participation by the service provider in the equitable allocation of risk;
- Tendering advantages that recognise excellent performance;
- Prepayment or early payment on contracts;
- Assistance with the service provider's project cash flows; and
- Waiver or reduction of retention monies and bank guarantees.

Example 4.1.1

An innovative project alliance has been established by the Commonwealth Government for the delivery of new facilities for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies on Acton Peninsula, Canberra. The facilities will open in March 2001 as the Commonwealth's flagship for the Centenary of Federation celebrations.

The alliance participants (architects, contractors, exhibition designers, Commonwealth and ACT Governments) work as an integrated team and share the risks and rewards of the project. Budget variations are shared between the participants on pre-agreed percentages. Additional rewards are payable for completion on time, within budget, and for outstanding quality. A loss of profits will result if the project does not meet any of its cost, time and quality benchmarks.

4.2 Use cooperative forms of contract and contracting selectively

Contracts such as the NSW Government C21 and alliance contracting offer potential advantages to both clients and service providers compared with traditional forms of contract. APCC members will consider the selective use of new and cooperative forms of contract.

Example 4.2.1

The Adelaide Convention Centre is undergoing a major extension on a prominent site in North Terrace. Work must be completed by August 2001 and within the \$85 million budget. The complexity of the project and its importance led to consideration of a contract based on collaboration between the consultants, contractors and client (South Australian Government). It requires both parties to take responsibility for the success of the project and to share the risks and rewards. After some initial concerns, all parties agreed that this is the best form of contract for this project.

Example 4.2.2

In Western Australia, the Department of Contract and Management Services is using a cooperative form of contract in their Facility Management framework for the implementation of maintenance programs. There are currently five long term maintenance contracts where an “open book” approach has been adopted. This allows for inter-contractor comparison to confirm value for money.

4.3 Develop supply chain management

Supply chain management has achieved significant efficiencies in the manufacturing industry. There is potential for it to be applied to the construction industry where all projects involve supply chain processes. Best practice supply chain management offers opportunities for non-traditional, unique, closer and long-term relationships throughout government supply chains. APCC members will work with industry to adapt the principles of supply chain management to government construction procurement.

4.4 Develop innovative commercial benefits

APCC members will work with industry to develop new ways to deliver construction projects with advantages for both the client and the service provider.

GLOSSARY OF TERMS

APCC

The Australian Procurement and Construction Council Inc. is the national reference for policy advice on procurement and construction matters and is the peak Council for industry interface for the Commonwealth, State and Territory governments in these matters. The APCC convenes meetings of the Australian Procurement and Construction Ministerial Council.

APCC Towards Best Practice - Guidelines

The *APCC Towards Best Practice - Guidelines* were developed by the Australian Procurement and Construction Council Inc. to assist in the implementation of the *National Code of Practice for the Construction Industry*. It aims to encourage continuous improvement and best practice approaches by all parties in the construction industry, represent the approach to be taken by all States and Territories and support the national strategies for industry development outlined in *Construct Australia: Building a Better Construction Industry in Australia*.

Best practice

Business processes and methods that have been identified as currently achieving the best overall outcomes for projects, nationally or internationally. The adoption of best practice is a means of achieving excellent performance.

Benchmarking

The practice of measuring performance against accepted national and international best practice, which is used as a reference point in order to emulate or exceed those standards through continuous improvement.

Client

Project owner, initiator, finance manager or any other party intending to invite proposals or tenders for works, services or goods. Clients exist at every level of the supply chain as suppliers become the clients of those in links below them.

Construct Australia: Building a Better Construction Industry in Australia

A policy statement developed by all members of APCC following the National Construction Industry Forum held at Sydney on May 30 1997. It seeks to create a vision that draws on the views, opinions and direction that industry stakeholders believe should be pursued to achieve change. It contains a number of strategies to be adopted by all members; *Principles for Encouraging Best Practice Performance* is one of these.

Excellent performance

In the context of this document excellent performance is the highest rating achievable for a supplier's performance. Assessment may include such things such as:

- business relationships and practice including cooperative contracting;
- organisational systems and standards;
- human resource management and training;
- time, cost and quality outcomes;
- research and development;
- effective management of occupation health safety and rehabilitation;

- security of payment;
- pro-active project planning (which includes environmental, business and financial issues).

A typical scale for performance rating might be:

- **Unsatisfactory** — fails to comply with specified requirements or approved procedure;
- **Poor** — complies with minor omissions to specified requirements or approved standard;
- **Adequate** — complies with specified requirements or approved procedures;
- **Good** — complies with specified requirements or approved procedures and results exceed some expectations; and
- **Excellent** — complies with specified requirements or approved procedures and results exceed client expectations.

Multi-factor tender evaluation

The practice of assessing tenders on a range of factors, which may or may not include price. The objective is to obtain the best possible outcome for a project taken as a whole. The criteria for assessment and the relative weightings to be given may be project specific and set out in the tender documents. If not, they will be determined by the value-for-money principles of the local procurement policy of the client agency. Typically this will embrace; total cost of ownership, fitness for purpose, timely delivery, degree of local support, wider benefits to the community and level of accreditation.

National Code of Practice for the Construction Industry

The *National Code* was developed jointly by the Australian Procurement and Construction Council Inc. and the Departments of Labour Advisory Committee (now Department of Workplace Relations Advisory Committee). The *National Code* has been endorsed and adopted by Commonwealth, State and Territory Governments through the Australian Procurement and Construction Ministerial Council and the Labour Ministers Council.

Risk management

A systematic process to identify and understand the risks inherent in a given project and to develop pre-emptive strategies to minimise them.

Service provider

An enterprise that provides consultant, contractor, expert or utility services where the product is primarily the provision of labour, advice, expertise or other intangible commodities.

Supply chain

The total network of organisations that are involved, through upstream and downstream linkages in the different processes and activities that provide value to the customer. Suppliers at any level are clients to those in the link below them. The chain includes not only the suppliers themselves, but also their financial institutions, regulatory bodies, industry associations, labour unions and individuals supplying skills and labour.

Supply Chain Management (SCM)

SCM identifies new ways of managing upstream and downstream relationships between suppliers and clients in order to deliver better value at less cost to the entire supply chain. Improved SCM is of benefit to all contributors in the chain.

APCC MEMBER AUTHORITIES (AT MARCH 2000)

Department of Finance and Administration

Commonwealth

Department of Public Works and Services

New South Wales

Department of Infrastructure

Victoria

Procurement Branch, Department of Treasury and Finance

Victoria

Department of Public Works

Queensland

Department of Administrative and Information Services

South Australia

Department of Contract and Management Services

Western Australia

State Supply Commission

Western Australia

Department of Transport and Works

Northern Territory

Department of Industries and Business

Northern Territory

Department of Urban Services

Australian Capital Territory

Ministry of Commerce

New Zealand